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AZ CORP COMMISSION
DOCKET CONTROL

July 17, 2015

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007**RE: Report to Commission in Compliance with ACC Decision No. 74897 in Docket No.
RT-00000H-97-0137**

Dear Corporation Commissioners and Staff:

In the Commission's December 11, 2014 Open Meeting, the Commission passed an amendment to the agenda item in this docket, which required Citizens Telecommunications of the White Mountains, Inc. (a wholly-owned subsidiary of Frontier Communications Corporation, ("Frontier")) to file a report within 60 days from the effective date of the Order which demonstrates why receipt of AUSF funds is still necessary and why it should not be required to file a rate case so that its rates and continued need for AUSF can be examined again.

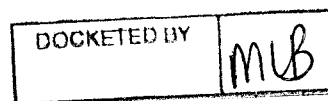
Frontier requested a re-hearing of that Decision (No. 74848) and on January 21, 2015, the Commission approved an extension of time up to 180 days in Decision No. 74897. Frontier hereby submits its report in compliance with that Decision. Frontier considers this report to be confidential in nature as it contains the discussion and presentation of intrastate financial results and financial projections not otherwise publicly available. The confidential report and attachment are being sent separately to the Arizona Corporation Commission Staff in a sealed envelope marked confidential.

Enclosed please find the original and thirteen copies of this letter and the public version of the report for filing purposes. Please direct any questions regarding this report to Kirk Lee at (425) 261-5855, or by email to kirk.lee@ftr.com.

Sincerely,

R. Kirk Lee
Manager, Government & External Affairs
Frontier CommunicationsArizona Corporation Commission
DOCKETED

JUL 20 2015



AUSF Report for CTC of the White Mountains, Inc.

Public Version - Redacted

Citizens Telecommunications Company of the White Mountains, Inc. (“CTC White Mountains” or the “Company”), *dba* Frontier Communications of the White Mountains, is currently authorized to receive Arizona Universal Service Fund (AUSF) money in the amount of \$769,620 annually per the Arizona Corporation Commission’s Decision No. 56657, dated October 10, 1989. On December 18, 2014, the Commission entered Decision No. 74848 in Docket No. RT-00000H-97-0137, directing Citizens Telecommunications Company of the White Mountains, Inc., a wholly-owned subsidiary of Frontier Communications Corporation (“Frontier”), to file a report within 60 days from the effective date of the Order which demonstrates why receipt of these AUSF funds is still necessary and why it should not be required to file a rate case so that its rates and the continued need for AUSF can be examined again. Frontier subsequently sought an extension of the filing requirement up to 180 days which was granted by the Commission in Decision No. 74897, dated January 21, 2015. Frontier hereby files this report on behalf of CTC White Mountains, in compliance with that Decision.

CTC White Mountains is an eligible telecommunications carrier (ETC) authorized to provide telecommunications and related services in the State of Arizona. The area served by CTC White Mountains is a mountainous region in the eastern part of the state. The Company serves 15 rural exchanges and approximately 21,000 access lines in this high country area including the communities of Show Low, Snowflake, Springerville, Heber, Pinetop and Lakeside. It is a rugged, high cost area where customer density averages less than 2.4 lines per square mile and the average loop length exceeds 6.5 miles. Since the inception of the AUSF, CTC White Mountains has utilized the annual funding it receives to assure the continued availability of basic telephone service at reasonable rates in this rural high cost area, pursuant to the Commission’s rules at A.A.C. R14-2-1113. CTC White Mountain’s current basic local service rate for residential customers is \$15.60 per month, which compares favorably with other rural providers in the state.

At the federal level, CTC White Mountains received universal service support from the FCC to help maintain affordable voice rates. Under the new Connect America Fund Phase II (CAF II) rules, the federal voice support will be replaced with targeted support which must be invested in deployment of broadband

services to underserved and unserved locations in its Arizona serving area. Prior to 2015, CTC White Mountains was receiving \$2,371,968 in frozen federal high cost support. This support was used exclusively for maintaining affordable basic service rates in high cost areas. Beginning in 2015 and continuing through 2020, CTC White Mountains will receive only \$1,267,630 in annual CAF II support, a reduction of \$1,104,338 or 46.6%. And that support must be directed to broadband deployment, not to supporting voice services. As a result, now more than ever, state AUSF support is needed.

Further analysis of CAF II data received from the FCC indicates that in 23% of the high cost census block locations (unserved by Cable or Fixed Wireless) in CTC White Mountains service territory, the Company will not be receiving any Federal CAF II support at all to help serve these locations. These are the locations that exceed the \$200 extremely high cost per line threshold set as the ceiling by the FCC for qualifying for support. These extremely high cost locations represent 75% of the total costs in all high cost locations. These facts also support the need for continued AUSF funding for voice/broadband service in these locations.

While the Company is regulated at the federal level as a price-cap carrier, CTC White Mountains is regulated by the Arizona Corporation Commission on a rate-of-return basis for its intrastate operations. However, the Company's last rate case was over 25 years ago, thereby prompting the Commission to request this report. In examining the financial results of its intrastate operations for yearend 2014, the Company finds that it has issues that make a traditional rate-of-return analysis problematic. In particular, while the Company has continued to invest and increased its total investment in plant, its Net Rate Base is very low and has been declining for a number of years, which gives a distorted view of the Company's earnings. Net Telephone Plant in Service has been near or below zero for the past 10 years, making a return on rate base calculation meaningless. The Company has utilized a more relevant approach, for purposes of this report, to demonstrate to the Commission that its AUSF support is still very much necessary. In this report, the Company has compiled actual results for 2005 through 2014, and projected results for 2015-2018. The report focuses on Net Operating Income (NOI) and NOI as a percentage of net revenues (or Operating Margin), as well as other financial indicators, in demonstrating the continuing need for support. The Arizona Corporation Commission has previously established precedent for using such an approach, by accepting and evaluating rate applications

from small water companies that have little or no rate base and seek permanent rate increases that provide a sufficient NOI.¹ The California Public Utilities Commission has adopted a similar approach as well.²

In developing its projections, the Company utilized the compound annual growth rates (CAGR) for 2005-2014 and applied them to future years, making adjustments where necessary for known differences. The Company's historical actual financial results, as well as the projections, are presented in Attachment A to this report. Actuals and projections include both total company and intrastate financial results using the Company's separations factors in conformance with 47 CFR Part 67.

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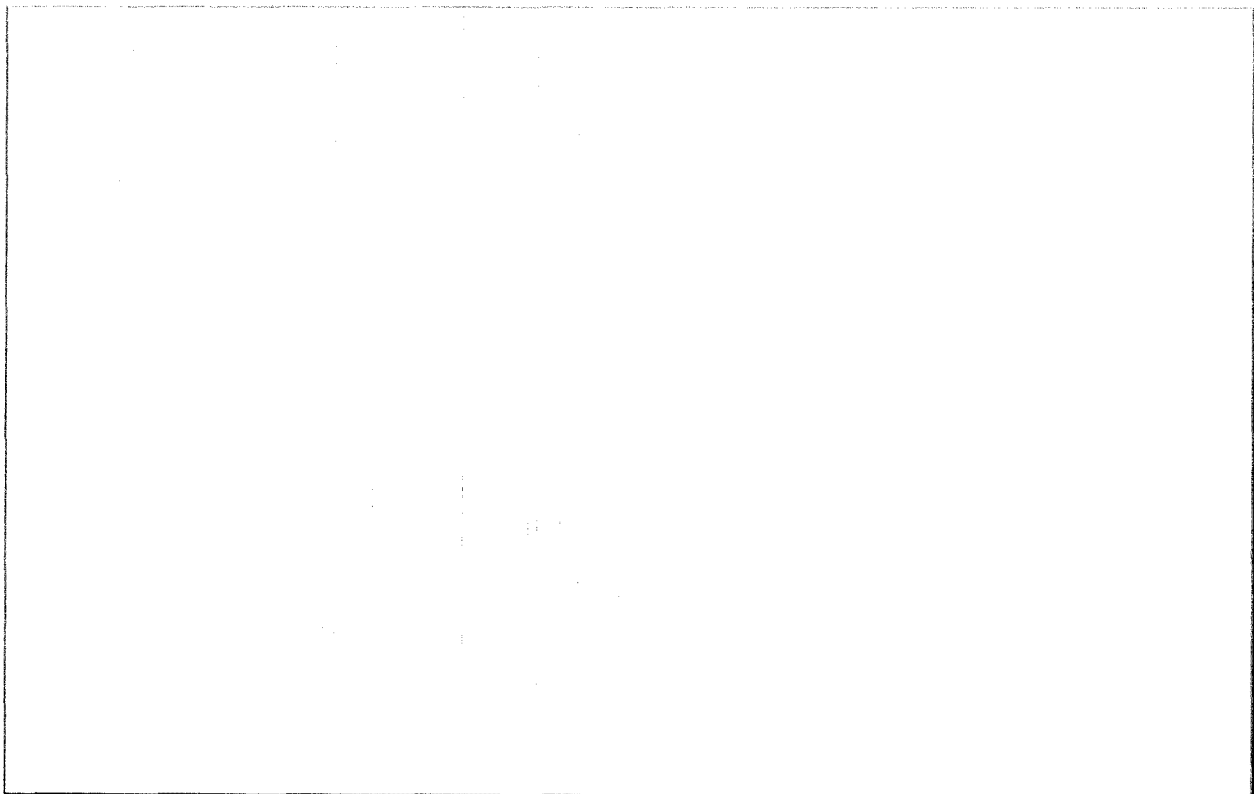
¹ Examples include Tierra Buena Water Co. W-02076A-15-0135, Loma Linda Estates W-02211A-14-0419, Chino Meadows II W-02370A-14-0231, Arizona Windsong Realty W-02250A-14-0028, White Hills Water Co. W-01982A-13-0311, A. Petersen Water Co. W-02678A-13-0293 and Lagoon Estates W-01825A-13-0329.

² CPUC Decision 92-03-093 (March 31, 1992), CPUC Resolution No. W-4524 (March 17, 2005), CPUC Standard Practice U-3-SM (Revised April 2006).

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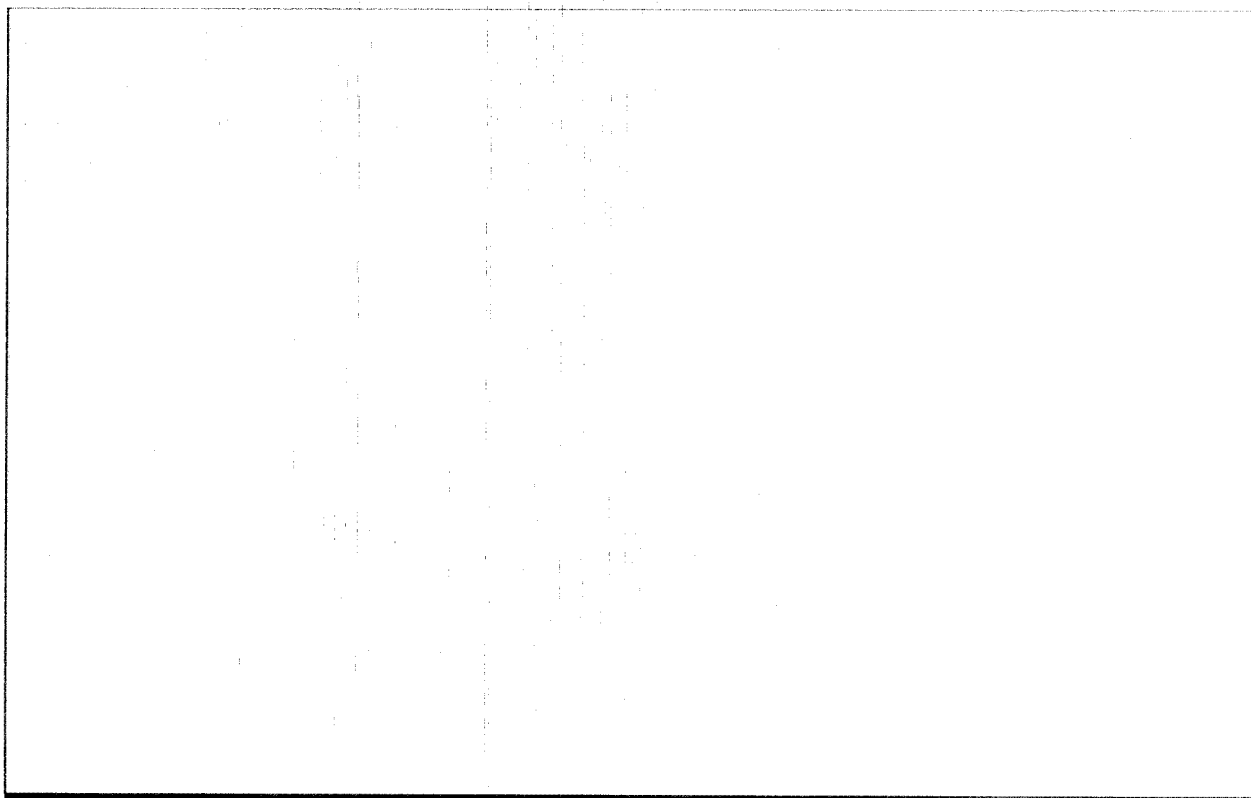
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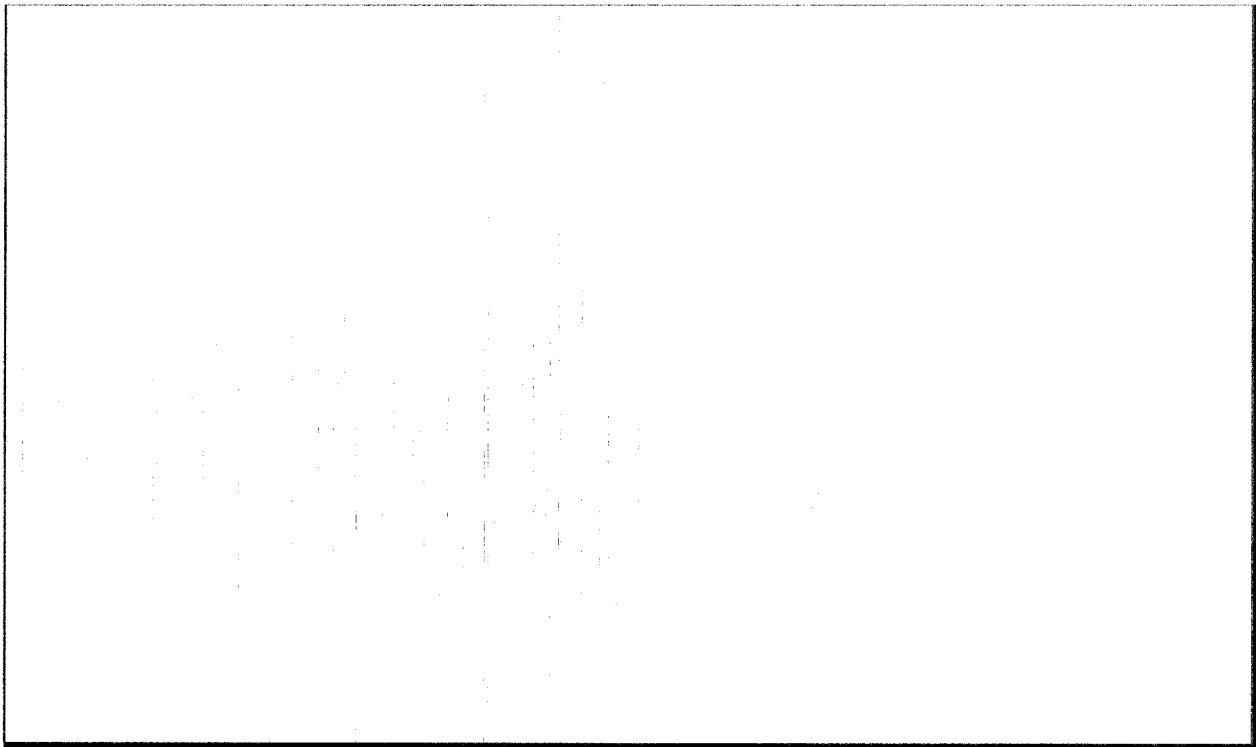
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In summary, as a rural telecommunications provider in a high cost area, CTC White Mountains continues to have a need for funds from the AUSF and that need is growing. While its access lines and intrastate revenues continue to decline over time, the cost of doing business has not kept pace. Operating expenses excluding depreciation have remained flat over the past 10 years while Frontier continues to invest in infrastructure and its telecommunications plant in service has continued to grow. The loss of federal high cost funding starting in 2015 plus the inability to receive any federal funds to reach many unserved locations due to their higher than allowable costs makes it even more imperative that AUSF funding not be reduced or terminated. With continued AUSF support, CTC White Mountains will continue to be able to provide innovative and new telecommunications products and services to its customers and maintain reasonable rates for basic local exchange service. The financial trends shown in this report also demonstrate that the Company should not be required to file a rate case. Its current rates are reasonable and, in conjunction with continued adequate AUSF support, sufficient to maintain its operations in the near future. A rate case would be expensive and unnecessary, taxing the resources of both the Company and the Commission.

Respectfully Submitted, July 17, 2015:



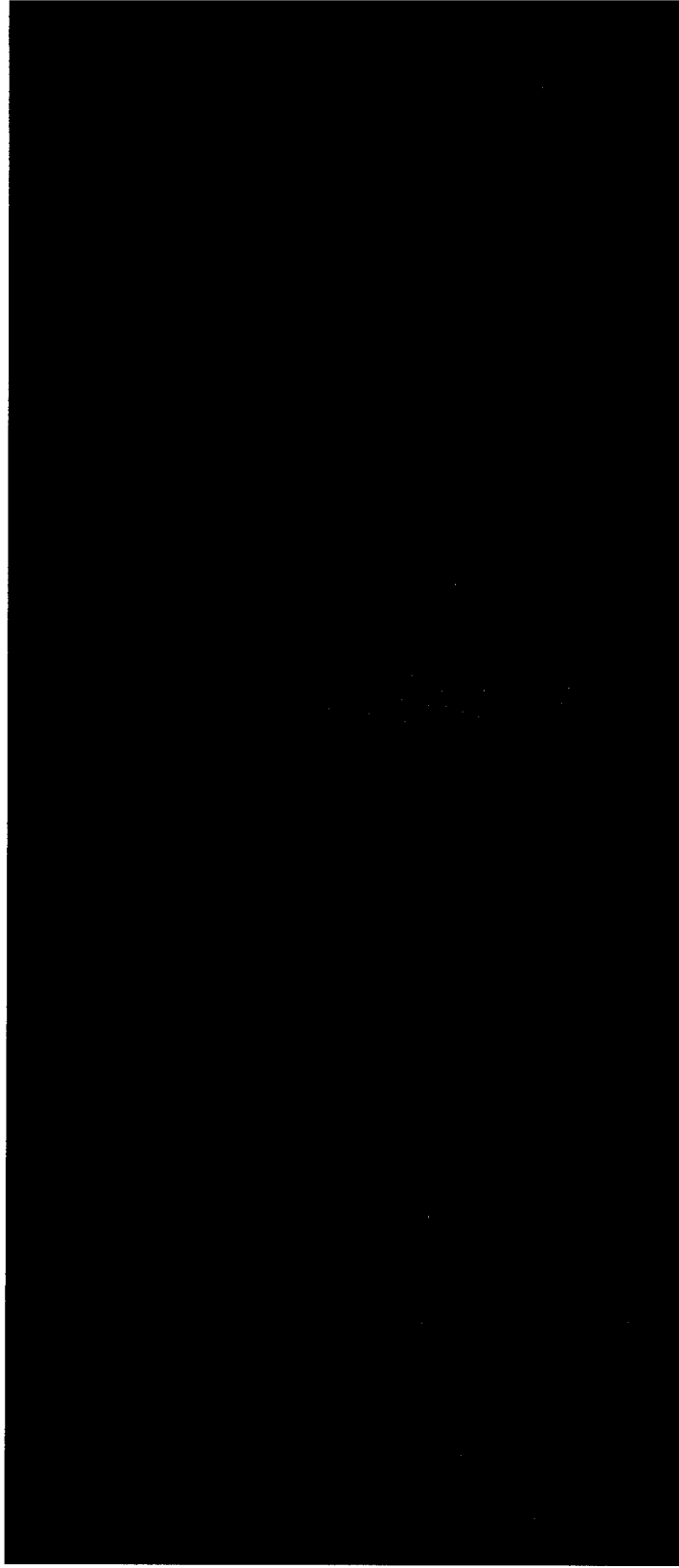
R. Kirk Lee
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Frontier Communications
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TOTAL COMPANY RESULTS

Revenues:
 Local Service
 Intrastate Access
 Statewide Access
 Federal High Cost Fund (HCLS)
 CAF/ICC (ARC)
 CALLA USF (IAS)
 Local Switching Support (LSS)
 FUSF Surcharge
 Miscellaneous Interstate
 Miscellaneous Intrastate
 Non Regulated Revenue
 Voice Mail 5280
 Directory 5230
 Unclassifieds
Total Revenues
Expenses:
 Plant Specific
 Plant Non-Specific
 Customer Operations
 Corporate Operations
 Depreciation & Amortization
 Taxes Ex Income
Total Expenses
Operating Income Before Income Taxes
 Interest Expense
 Income Taxes @ 39.53%
Net Operating Income
Rate Base
 TPA
 CWP
 Material & Supplies
 Cash Working Capital
 Subtotal
 Accumulated Depreciation
 TPA Reserve
 Customer Deposits
 Deferred Income Tax
 Subtotal
Net Rate Base
Total Capital Expenditures

2005-2014
CAGR

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018



INTRASTATE RESULTS

Revenues:
 Local Service
 Interstate Access
 Intrastate Access
 Statewide
 Federal High Cost Fund (HCLS)
 CAF-ICC (APC)
 CALLs USF (IAS)
 Local Switching Support (LSS)
 FUSF Surcharge
 Miscellaneous Intrastate
 Non Regulated Revenue
 Voice Mail 5280
 Directory 5230
 Unclassified
Total Revenues

Expenses:
 Plant Specific
 Plant Non-Specific
 Customer Operations
 Corporate Operations
 Depreciation & Amortization
 Taxes Ex Income
Total Expenses
 Total Expenses excluding Depreciation

Operating Income Before Income Taxes
 Interest Expense
 Income Taxes @ 39.53%
Net Operating Income

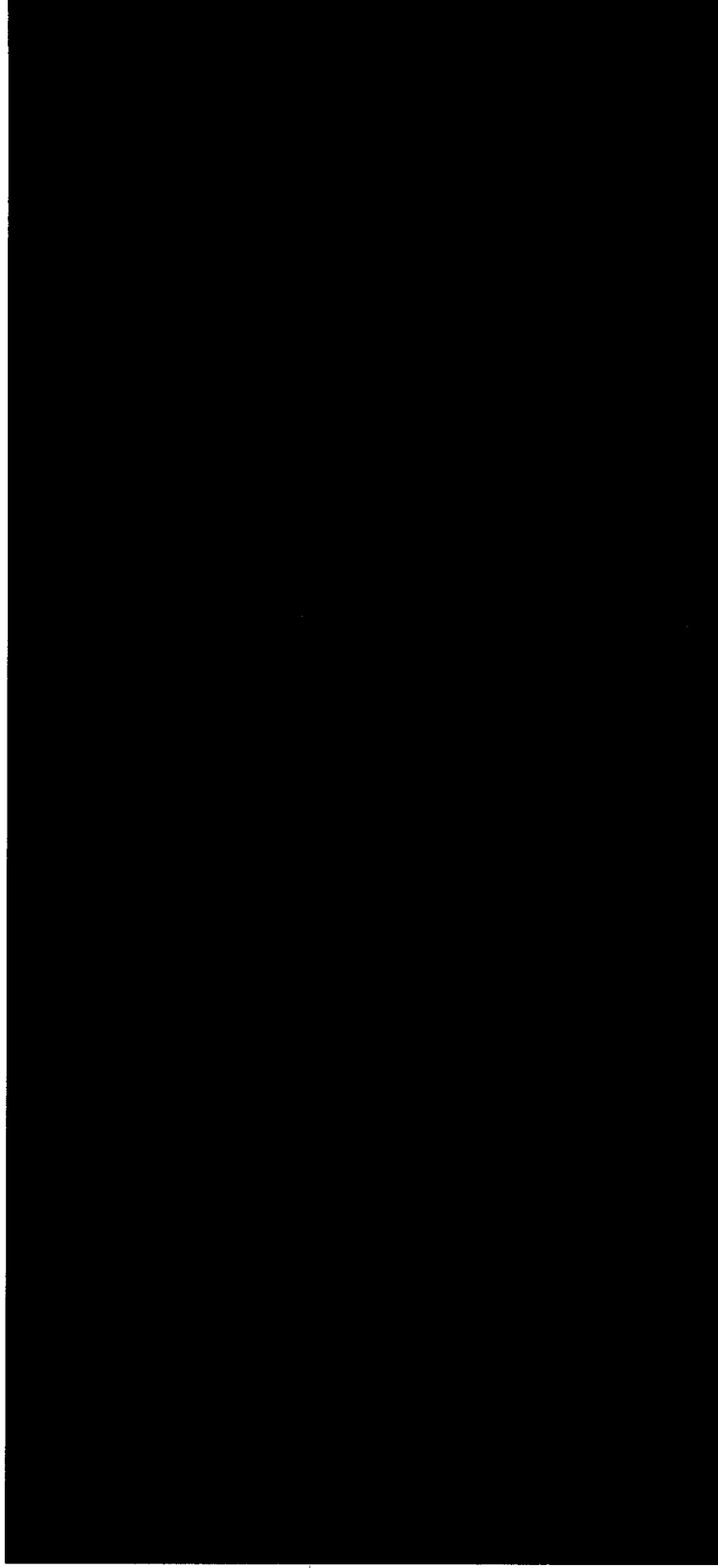
Rate Base
 TPIS
 TPA
 CMP
 Material & Supplies
 Cash Working Capital
 Sub-total

Accumulated Depreciation
 TPA Reserve
 Customer Deposits
 Deferred Income Tax
 Sub-total

Net Rate Base
 Net TPIS

2005-2014
CAGR

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018



ACCESS LINE STATISTICS

Residential local exchange access lines
Business local exchange access lines
Total Local Exchange Access Lines in Svc

CapEx per Line
TPIS per Line
Revenue per Line
Expenses per Line
NOI per Line
NOI Ratio

SEPARATIONS FACTORS:

Revenues:
Local Service
Interstate Access
Intrastate Access
State USF

Federal High Cost Fund (HCLF)
CAF-ICC (ARC)
CALLS USF (IAS)
Local Switching Support (LSS)
FUSF Surcharge
Access to Interstate
Miscellaneous Intrastate
Non-Regulated Revenue
Voice Mail 5280
Directory 5230
Uncollectibles

Expenses:
Plant Specific
Plant Non-Specific
Customer Operations
Corporate Operations
Depreciation & Amortization
Taxes & Income

Rate Base
TPIS
TPA
CWIP
Material & Supplies
Cash Working Capital
Accumulated Depreciation
TPA Reserve
Customer Deposits
Deferred Income Tax

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2005-2014 CAGR
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FACTORS
REGULATED INTRASTATE

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CALCULATION OF COMPOSITE TAX RATE:

STATE TAX RATE	a
FEDERAL TAX RATE	b=1-a
COMPOSITE RATE	c
	d=b*c
	e=a*d